



EIB INFORMATION

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The EIB in Central and Eastern Europe: From transition to a market economy to pre-accession

EIB financing in Central and Eastern Europe dates back to 1990 and, in conjunction with assistance from the European Union out of the budgetary resources of the "Phare" programme, it has developed steadily over the years. Thus, since operations began, loans totalling ECU 4.8 billion have been granted in the 11 Central and Eastern European Countries (CEEC) that have signed Europe Agreements. From 31 January 1997 to 31 January 2000, the Bank will be implementing a new lending mandate in these countries for ECU 3.5 billion.

A GROWING COMMITMENT

Following an initial period of support for the transition to democracy and a mar-

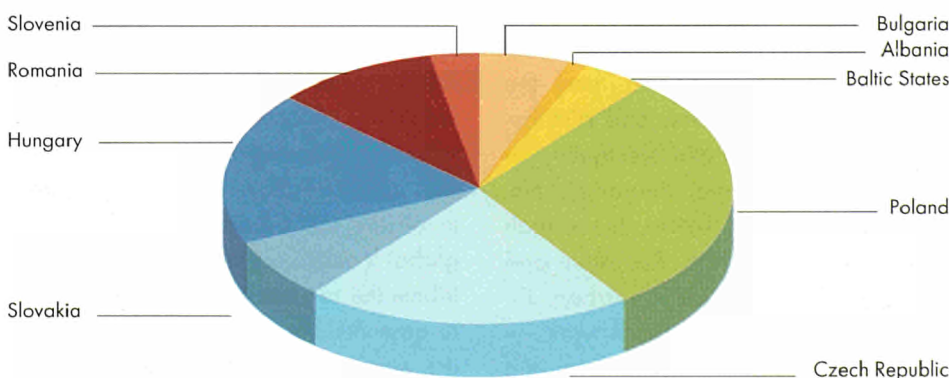
ket economy, since the European Council in Essen (December 1994) the EIB's mission in Central and Eastern Europe has been based on the expressly formulated request to help the countries of the region prepare for accession to the Union. Successive Councils, in particular those in Madrid and Dublin, have confirmed this policy.

In carrying out its mission, the EIB is working in close cooperation with the European Commission and, in particular, the "Phare" programme which is aimed at supporting the economic transformation of the democracies of Central and Eastern Europe with grant aid and technical assistance. Regular and systematic cooperation has also been established with the World Bank and

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 ECU 7 billion have been provided for redressing the relative economic and technological backwardness of the new Länder. Around half of total EIB financing in Germany is devoted to the eastern part of the country.
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- **Activity during the first quarter** **11**
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 - Loans signed: ECU 2.7 billion.

EIB lending in Central and Eastern Europe, 1990 - 1996
 Breakdown by country



the European Bank for Reconstruction and Development (EBRD), of which the EIB is a shareholder, with a view to optimising and restructuring the activities of the various institutions in order that the countries concerned may achieve transition successfully. All told, nearly 60% of operations in Central and Eastern Europe involve co-financing with the other multilateral institutions. Moreover, the EIB is also conducting a number of operations in liaison with commercial banks.

PRIORITY FOR REHABILITATING INFRASTRUCTURE AND EXTENDING TRANS-EUROPEAN NETWORKS

In these circumstances, the EIB is concentrating its financing on the necessary upgrading of basic infrastructure, which has a decisive influence on economic revival. So far, a considerable proportion of lending has gone towards the establishment or development of links with the European Union and the extension of trans-European transport, telecommunications and energy networks. Altogether, since the start of the Bank's lending activity in the region, improvements to communication links between the European Union and the CEEC have absorbed ECU 2.7 billion or 57% of financing.

The transport sector has taken up most of the financing: ECU 1 869 million or



39% of the total. Road (862 million), rail (683 million), air (215 million), port (69 million) and urban (40 million) transport projects have all been funded. Among the projects that have made important contributions to facilitating the movement of goods and persons on a continental scale are the Berlin-Warsaw and Berlin-Prague-Vienna railway lines, the line linking the east and west of Slovenia, the Wroclaw-Glivice motorway in Poland, sections of the Via Baltica in Lithuania, and numerous stretches of road in Bulgaria, Romania, Hungary and Slovakia.

In air transport, special emphasis has been placed on modernising the air traffic control systems in Bulgaria, Romania, Slovakia, Estonia and Hungary, while extensions to Vilnius airport in Lithuania and Warsaw airport in Poland have also received financing.

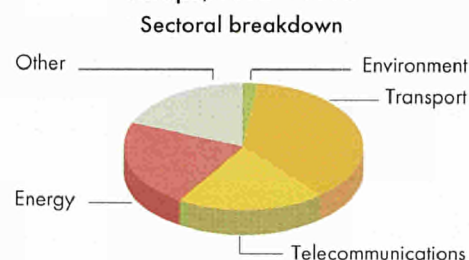
Where port infrastructure is concerned, funding has been made available for a passenger terminal at Durrës in Albania, a freight terminal at Klaipeda in Lithuania and another at Muuga in Estonia, as well as for rehabilitation and extension of the port of Constanta in Romania. An ECU 40 million loan has also been provided for modernising the Bucharest metro.

As for projects in the energy sector, they have accounted for ECU 1 055 million or 22% of total lending. The principal schemes in this field have involved gas pipelines and natural gas distribution networks or storage installations in Lithuania, Poland, the Czech Republic, Romania and Slovakia, and the generation and distribution of electricity in Albania, Bulgaria, Hungary, Latvia, the Czech Republic, Romania and Slovakia. The urban district heating networks in Bucharest (Romania) and

Pärnu and Tallinn (Estonia) have also benefited from loans.

With ECU 875 million or 18% of financing, the telecommunications sector is another important beneficiary. In this sector, as with most infrastructure, the objectives have been an improved ser-

EIB lending in Central and Eastern Europe, 1990 - 1996



vice, upgrading to comply with the standards applicable in the European Union and Europe-wide interconnections. Through its loans, the EIB has helped to modernise the networks in Hungary, Lithuania, Poland, the Czech Republic, Romania, Bulgaria and Slovakia.

STRENGTHENING THE FABRIC OF INDUSTRY

EIB support for industrial projects, primarily those undertaken by small and medium-sized enterprises, amounts to ECU 828 million, made available in close cooperation with local financial institutions through the global loan mechanism. In addition, an ECU 100 million individual loan has been granted to a German-Czech joint venture in the motor vehicle sector.

The investment financed out of global loans covers a wide range of activities including glass-making, electronics, woodworking, agricultural processing and tourism. Following their deployment in all the CEEC, apart from Slovenia, global loans to partner banks, which distribute the proceeds by lending on smaller amounts, are now also contributing to the emergence of an efficient banking

system capable of underpinning the economic conversion which these countries must undergo.

PROTECTION OF THE ENVIRONMENT

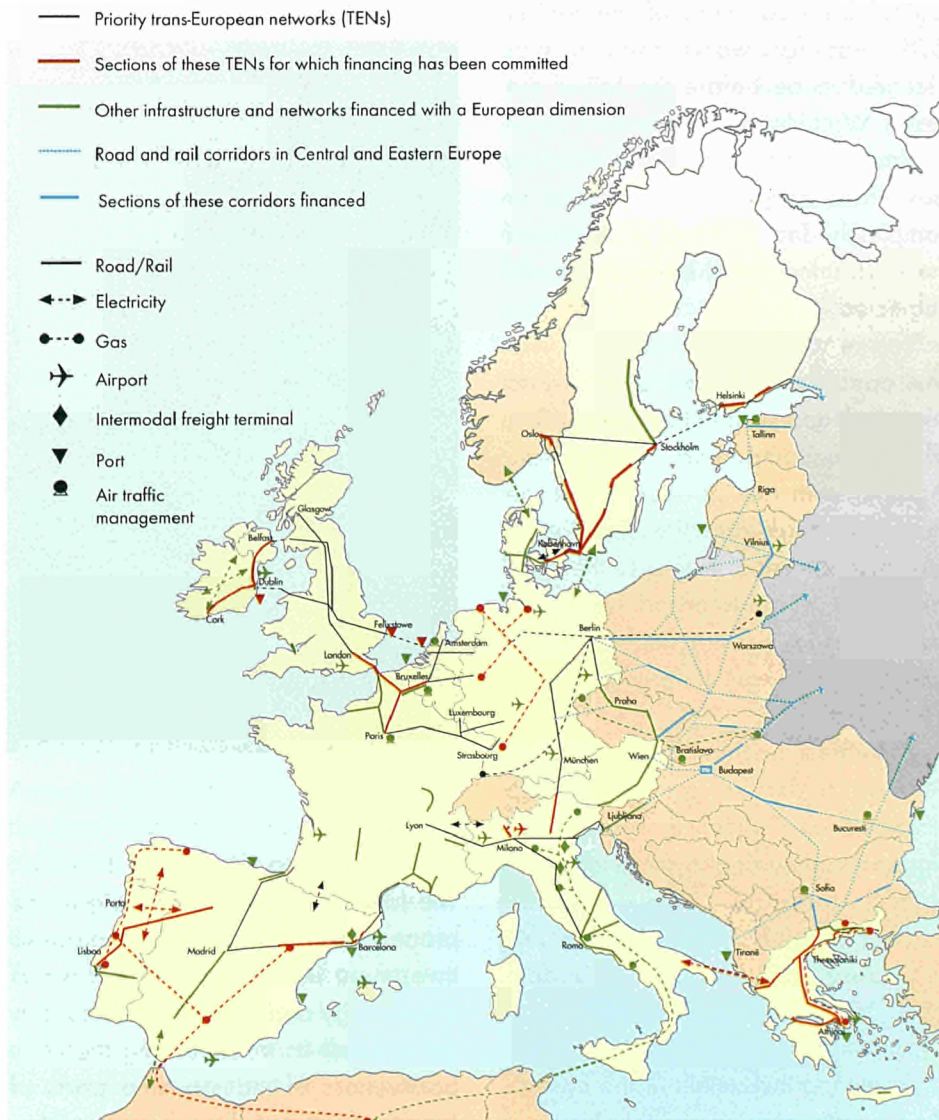
So far, the environmental sector has attracted ECU 73 million for water treatment projects in Warsaw and Riga and reforestation in Poland. However, the Bank's efforts to improve the environmental situation, which had deteriorated considerably, should be viewed in a much wider context. Thus, a number of projects in the energy sector are having

a direct impact on air quality thanks to the installation of desulphurisation equipment in lignite-fired power stations or the replacement of obsolete units, for example in the Czech Republic, Bulgaria and Romania.

Moreover, the EIB assigns high priority to examining the environmental impact of every project it finances and to seeking solutions calculated to ensure sustainable development. Thus, in evaluating its projects, the Bank requires strict compliance with national standards and encourages application of the relevant Community standards. Accordingly, by

taking into account the environmental aspects of projects financed in the transport, energy and industrial sectors and promoting use of minimum-impact technologies the Bank is actively contributing towards improving the ecological balance in the countries of the region. Moreover, the EIB is also participating in various regional programmes aimed at enhancing the quality of the environment, particularly in the Baltic Sea and the Elbe and Danube basins (see page 6, projects supported in Germany's eastern Länder).

Trans-European transport and energy networks and road and rail corridors in Central and Eastern Europe



LOOKING TO THE FUTURE: NEW MANDATE AND PRE-ACCESSION FACILITY

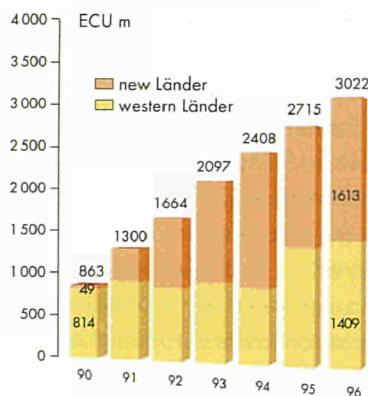
The increased resources made available under the EIB's new three-year mandate - ECU 3.5 billion for the period 31.1.1997-31.1.2000 - will enable the Bank further to develop its activities. These were initially focused on redirecting and integrating the economies of the CEEC but are now, in particular in the context of the Europe Agreements, also helping progressively to pave the way for accession to the European Union.

Alert to its leading role in this process as the Union's financing institution, the Bank has welcomed the Council's suggestion concerning the establishment of an additional pre-accession facility, conceived in the same spirit as those created when the Union was enlarged to take in Greece, Spain and Portugal. With the opening of accession negotiations, this mechanism, financed from the Bank's own resources and operating without the Community guarantee that normally accompanies operations outside the Union, will enable a substantial volume of lending to be made available to support the successful integration of the countries of Central and Eastern Europe, until they become members of the Union and the Bank, thereby gaining access to the full range of its financial products. ■

Six Years of EIB Financing in the New German Länder

Immediately after the unification of Germany and the admission of the new Länder into the European Union, the EIB extended its operations to the eastern part of the country. Since then the EIB has granted loans worth around ECU 7 billion, thereby co-financing investment totalling some ECU 20 billion and helping to safeguard and create jobs.

Financing provided in Germany
1990 – 1996



Even in the new Länder, despite their special situation, the Bank's policy has been to provide long-term financing only for economically viable investment, which means subjecting every project to strict scrutiny in order to assess its profitability, technical feasibility and contribution to regional development. This policy has paid off. None of the projects financed by the EIB is ailing and neither is there any fear of this in the future.

The extensive activity in the new Länder has considerably accelerated the growth of Bank financing in Germany as a whole. In the last six

years the volume of lending has grown by a factor of 2.5. Germany has thus become the EIB's second biggest borrower, just behind Italy. About half of the EIB's total volume of financing in Germany goes to the eastern part of the country.

THE NEW LÄNDER: OBJECTIVE 1 REGIONAL DEVELOPMENT AREAS

The true state of economic and technological backwardness of the former GDR was far worse than it was assumed to be before the fall of the Berlin Wall. Infrastructure had been neglected for decades. The building stock had seriously deteriorated or completely decayed and protection of the environment had been drastically neglected.

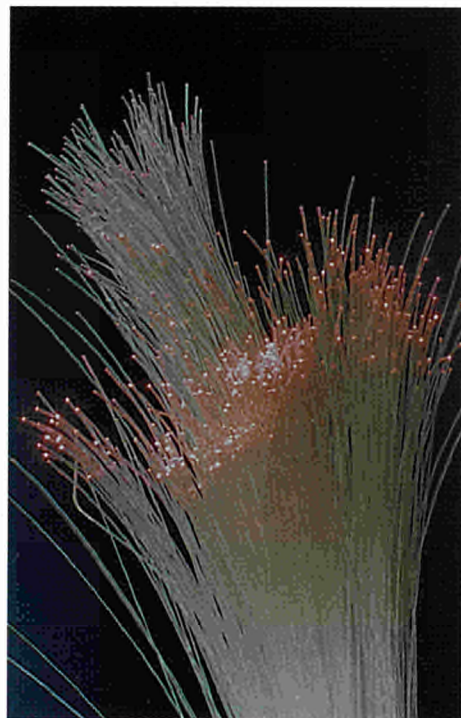
The opening up of the economy to European and worldwide competition, which accompanied unification, together with the introduction of the Deutsche Mark and the subsequent rapid adjustment of wages to the West German level made broad swathes of East German industry uncompetitive. Unemployment rose sharply.

The manifest economic weakness of the new Länder led to their all being classified as Objective 1 areas for German and European regional development purposes. They therefore became eligible for the maximum authorised investment aid to enable them to catch up. The European Investment Bank took on the challenge of promoting investment in the eastern Länder as quickly as possible by offer-

ing long-term financing on favourable terms, while at the same time placing its technical and organisational expertise at their disposal.

THE CHANGING EMPHASIS OF EIB FINANCING

The EIB's strategy was shaped by two important factors, namely the investment needs and the maturity of potential projects, on the one hand, and the



Bank's financing criteria, on the other. The latter preclude EIB lending in the property sector and restrict support to investment in the areas of infrastructure, energy and environmental protection as well as to enhancing the competitiveness of industry and parts of the service sector.

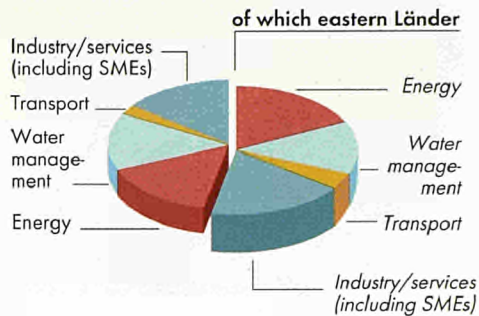
The Bank began by financing **industrial** projects, in particular those which "Western" investors had already been promoting in the run-up to unification and could therefore be put in hand quickly. Among the pace-setters were Volkswagen AG with new assembly and engine plants in Saxony, Opel AG with the construction of a motor vehicle factory in Thuringia, Haindl Papier GmbH with paper manufacturing in Brandenburg, and Lafarge Coppée with cement-making in Sachsen-Anhalt. In the **commercial** sector the Bank financed modern warehouses for the mail-order companies Quelle and Otto Versand.

However, by 1993/94 this first wave of large-scale investment in the industrial and commercial sectors had already begun to recede, due partly to the general rise in interest rates and the economic downturn in Germany and Europe and partly to a more cautious appraisal of the prospects for the new Länder. Large-scale investment in the industrial and commercial sectors has now become less common.

Thus, the Bank's activity in the industrial sector has become increasingly oriented towards **financing small and medium-scale ventures**, in close co-operation with the banking sector. The EIB has extended **global loans** to a good dozen German financial institutions which in turn have used them, in accordance with the Bank's guidelines, to finance investment of this type on their own account and at their own risk. Among these loans are those made to the *Treuhandanstalt*, which became the owner of the former *publicly-owned* State enterprises with responsibility for their restructuring and privatisation. The first loan to the *Treuhandanstalt* was provided as early as 1991. It was deployed, like the ones that followed, to finance investment in corporate restructuring, though only to the extent

necessary to keep the business going or facilitate its privatisation. In accordance with the principle on which the

Financing provided in Germany in 1996



Treuhandanstalt was founded, actual restructuring and modernising of the companies was to remain the responsibility of the future private owners.

In parallel with its activity in the industrial sector, the Bank has steadily built up its financing in the area of **infrastructure**. The transport sector, however, which in the Federal Republic has traditionally been mainly financed from public budgetary funds, was excluded. The only exceptions so far have been the EIB loans for extension and modernisation of the tram system in Rostock and of Leipzig-Halle air-

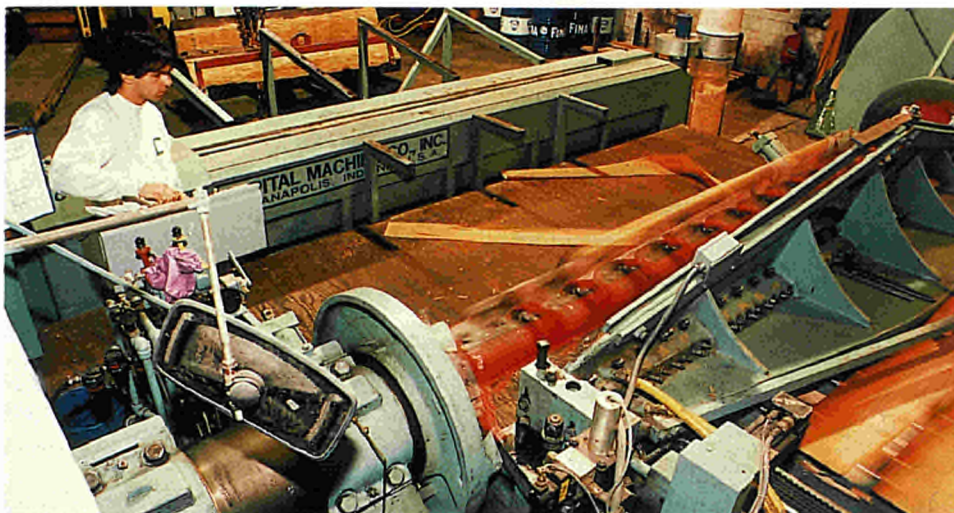
port. In the infrastructure sector, too, the Bank's strategy was based on investment priorities and the maturity of the projects. Initially, top priority was given to modernisation of the totally outmoded **telecommunications sector**. The Bank made loans to the Deutsche Bundespost and DBP Telekom to fund development of high-performance communications networks. It also financed the equipping of modern **mail distribution centres** by the Bundespost.

In the **energy sector**, the planning of private and municipal projects progressed just as rapidly as in the communications sector. The EIB financed regional natural gas grids and urban gas distribution networks for the purpose of converting energy supplies to environmentally friendly natural gas. There followed loans for construction of modern heat and power plants and for extension and modernisation of the district heating networks supplied by them (in Potsdam, Dresden, Berlin, Halle and Neubrandenburg), together with large lignite-fired power stations. Thus, at *Schwarze Pumpe* and *Schkopau*, new ultramodern lignite-burning power plants were built to



replace obsolete units which were both very inefficient and highly polluting. This has considerably reduced the impact on the environment while at the same time making it possible to continue lignite mining and save jobs. After the power station loans came follow-up financing to modernise the high- and low-voltage power supply networks.

Where the environment is concerned, apart from energy, emphasis has also been placed on water pollution control, another aspect that was completely neglected during the GDR period. The Bank has financed wastewater treatment facilities in Bitterfeld, Wittenberg, Saalfeld, Eisenach and



Dresden and in the Saale valley. On the basis of its experience with projects of this type, the EIB has also been

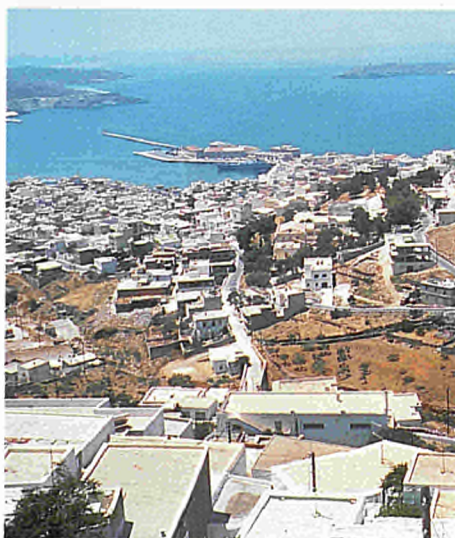
able to offer advice and influence the choice of the most economically efficient solution. ■

Risk Capital and the Euro-Mediterranean Partnership Support for economic liberalisation

■ The concept of the Euro-Mediterranean Partnership, first launched at the Barcelona Conference in November 1995, represented a challenge both for the non-member Mediterranean countries and for the European Union. Indeed, this Partnership was to map out a new approach to relations between the political, economic and social players involved in the region, now imbued with a spirit of equality and ever-closer cooperation.

The Euro-Mediterranean Partnership is the culmination of financial cooperation stretching back more than thirty years between the Union and its neighbour countries on the Mediterranean. Involved in this cooperation since the early years, the European Investment

Bank is a key partner in the development of the non-member Mediterranean countries and their economies; over the past



five years (1992-1996), it has actively contributed to the European Union's "Redirected Mediterranean Policy" (1), deploying a total volume of financing worth ECU 3.3 billion over a wide gamut of economic sectors. On the strength of this experience, the Bank is set to put its full weight behind achieving the ambitious goals of the Partnership first established in 1996 (2).

(1) See brochure "Fostering a Euro-Mediterranean Partnership", published by the EIB in June 1996.

(2) The EIB contributed to debate of this topic by devoting its 1996 Forum to "The Mediterranean: Working in Partnership". See "EIB Information" No. 91, 1-1997, pp. 10-11.

INSTRUMENTS TAILOR-MADE FOR MORE OPEN ECONOMIES

The great majority of the governments of the non-member Mediterranean countries have demonstrated that they have the will to undertake the structural, legislative and sectoral reforms needed to institute a market economy, contributing to lasting economic growth and creating a climate conducive to mobilising national savings and attracting foreign capital.

It is against this background that the European Union approved the MEDA Regulation in July 1996 and that the EIB embarked upon a new mandate for action in the Mediterranean up to the year 2000, for ECU 2 310 million, involving financing instruments tailored to the structural adjustment needs of the non-member Mediterranean countries.

Alongside its traditional long and medium-term loans (3), since 1979 the Bank has deployed *risk capital* resources drawn from the EU budget. Intended to consolidate the equity contributions of firms in the industrial, tourism and service sectors, risk capital is a long-term financial instrument (up to 20 years) through which the European Union provides partial injections of capital or quasi-capital in the form of direct or indirect equity participations; these participations are limited to 50% of the contribution by the entrepreneur or the intermediary, and their remuneration

and repayment conditions depend on the results of the project financed. Some ECU 120 million in loans from risk capital have already been advanced by the EIB, furnishing equity funding for close on 1 000 projects costing at an estimated ECU 520 million in all.

Under the new MEDA Financial Regulation, the pool of available risk capital has been expanded and the financing criteria broadened in scope; over the period 1997-1999, this form of financing is set to increase over threefold compared to the figure for 1992-1996, which worked out at ECU 20 million annually.

The implementing arrangements have been widened to foster development of the financial sector, support privatisation

under-capitalised, in the non-member Mediterranean countries this state of affairs is exacerbated by the difficulties promoters have in bolstering the financial base of their businesses owing to a dearth of specialised financial institutions. The Bank is therefore seeking to play a part in liberalising the financial sectors it will use as intermediaries in its operations by making available to them more efficient financial products and supporting the creation of new facilities, such as investment funds and venture capital or development capital companies.

The EIB may consider acquiring participations in the investment funds, either directly or through financial institutions. Given the emphasis placed on bringing together private European investors and



programmes and promote the restructuring of businesses along competitive lines, three prerequisites for the economies concerned.

BACKING DEVELOPMENT OF THE FINANCIAL SECTOR

When economies are liberalised, one of the first consequences is the patent need to expand the existing financial systems. Features common to all the countries concerned are the small scale of these systems and a limited variety of available products. While small and medium-sized enterprises (SMEs) are generally

the countries concerned, the Bank plans to support investment funds involving European and local partners. These funds will then be in a position to help finance firms and to contribute their experience in setting up projects based on knowledge of the local productive sector.

In tandem with these measures, the EIB is prepared to support the start-up and operation of venture capital and development capital companies by funding their equity contributions and extending risk capital credit lines for financing the quasi-capital needs of their client businesses.

(3) Direct financing for large-scale projects and global loans in support of small and medium-scale ventures. Global loans are akin to credit lines extended by the EIB to local financial intermediaries which the latter then draw on to finance small or medium-scale ventures (up to ECU 25 million) in keeping with criteria defined by the EIB. Between 1974 – the year which saw the first global loans in the Mediterranean – and 1996, ECU 1 billion went to local or development banks in the Mediterranean region, supporting 2 900 projects with an estimated aggregate value of ECU 2.5 billion.

These new strictly-independent financial operators can invest in businesses with or without a stock exchange listing, operating in the different productive sec-



tors – industry, agricultural processing, services and tourism – and finance a wide array of operations: start-up of industrial enterprises, management buy-outs or buy-ins, expansion or modernisation of existing businesses, financial restructuring or capital increases linked to new investment or to privatisation operations.

SUPPORTING PRIVATISATION PROGRAMMES

Having opted to establish a market economy, the non-member Mediterranean countries associated with the Union through the Partnership will need to liberalise their economies and boost the productivity of their businesses with a view to operating in a larger market. Against this background, privatisation of the productive sectors is a priority in many countries. But whilst creating a free-trade area in the region may widen the reach of these economies, it will lead to an erosion of customs rev-

enue in these countries, causing them to cut back their public spending programmes. Hence, only by stepping up recourse to local savings and above all to foreign investment will it be possible to get the process of economic growth back on track again; in the circumstances, privatisations represent an important factor for stimulating the flow of investment. The Bank's financing activities will be directed at supporting and consolidating the equity base of the privatised firm, thereby partnering the new promoter in its investment.

COMPETITIVE BUSINESSES FOR A FREE-TRADE AREA

The free-trade area created between the European Union and the non-member Mediterranean countries is spurring productive-sector enterprises in the latter region to restructure in order to remain competitive since the development gap between the two groups of countries is creating manifest disequilibria in the integrated economic area. Whereas European exporters will be able to benefit rapidly from the progressive lowering of customs duties, the non-member Mediterranean countries will need to dismantle the protective measures behind which their fledgling industrial sector has sheltered until now. Thus, risk capital funding is designed to compensate for the under-capitalisation of businesses in non-member Mediterranean countries, as reflected in their high level of debt with the banking sector and overburdened operating accounts, which weaken the companies compared to their European counterparts with a more solid balance sheet structure.

By advancing risk capital funds to financial intermediaries established in the non-member Mediterranean countries and in close touch with the local scene, the EIB will be backing the *competitive restructuring* of businesses, chiefly SMEs. This action will be accompanied by setting in place both a study programme conducted by these financial

intermediaries to identify the specific requirements of each applicant firm and facilities offering necessary technical assistance to operators with respect to management, marketing and production, etc. The object is to transfer *know-how* so as to maximise the return on investment and to achieve the desired goals of growth and integration.

A VERSATILE FINANCING INSTRUMENT

Following approval of the MEDA Financial Regulation, the EIB started to examine new risk-capital operations in the Mediterranean and has authorised two operations to date amounting to ECU 30 million. There are a variety of financing options, which can be tailored to the different needs of the economies and operators in the countries concerned. These are summarised below (see also box article, page 9):

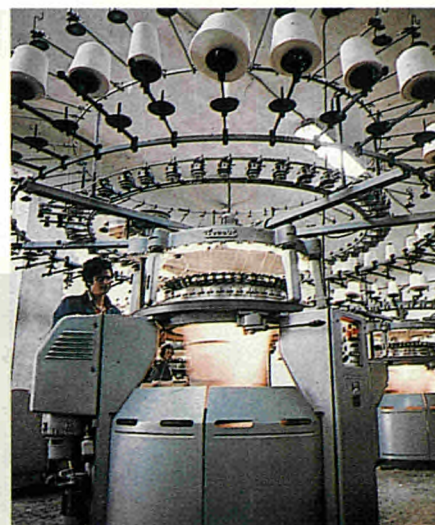
- *Direct financing.* The Bank grants loans from risk capital to the project promoter or acquires a minority temporary participation on behalf of the European Community, either in the firm managing the project or in a finance company. Example: the loan from risk capital recently advanced to the Alexandria Tyre Company in Egypt.

- *Indirect financing.* Through credit lines, by extending global loans from risk capital to local financial intermediaries – commercial or development banks – which they use to part-finance firms' equity or the acquisition of participations. Around twenty banks in eight non-member Mediterranean countries have benefited from this type of global loan since 1979 (4). Recently, two credit lines were opened, one with the finance company "Lebanon Invest" and the other with a group of nine Tunisian financial intermediaries.

(4) See also "EIB Information" No. 81, September 1994, p. 7.

- Financing of new *independent financial operators*: investment funds, venture capital or development capital companies. Their creation is supported by the Bank, which can advance risk capital to

finance their equity as well as their investments. It was in this connection that the EIB had a part in funding the start-up of Moussahama, Morocco's first venture capital company. ■



FOUR PROJECTS – FOUR SITUATIONS

Within the non-member Mediterranean countries, the first to tap the *risk capital* facility were banks in Lebanon, Egypt, Tunisia and Morocco, whose track record with previous global loans – in some cases dating back to 1974 – had confirmed their ability to identify and appraise promising capital projects. These countries also took the lead in implementing the first projects to benefit from the more recent risk-capital financing arrangements. A number of noteworthy projects are described below.

- **Alexandria Tyre Company (ATC)**, an industrial joint venture set up by the Italian company Pirelli and Egyptian investors, received an ECU 2.5 million loan from risk capital to fund investment to boost the production capacity of its tyre plant. This was a *direct conditional* loan for which interest payments, repayment of principal and term are linked to the company's performance.
- The EIB partnered banks in Morocco to set up **Moussahama**, the first venture capital company in that country. The EIB contributed by acquiring a *direct minority stake* of ECU 500 000 in this company's equity. Although modest, the Bank's participation has had a catalytic effect in the formation of a pool of leading Moroccan banks. As an adjunct to the acquisition of this holding, an ECU 1.5 million *credit line* was advanced to fund stakes taken by Moussahama in private companies.
- The group **Lebanon Invest**, an investment bank founded in 1994 as the product of a Euro-Lebanese joint venture, attracted a *credit line* from risk capital for ECU 3 million to finance equity participations in SMEs in the productive sectors, preferably in partnership with investors from the European Union with a view to promoting industrial development in Lebanon. The funds meet a demand for investment capital given fresh impetus by reconstruction of the country.
- **Nine Tunisian financial intermediaries** are handling the administration of ECU 15 million of risk capital with the aim of bolstering the equity base of private firms in the productive and service sectors. A precondition for having access to the facilities on offer is that the companies must undergo a comprehensive and strategic audit (management, finances, market situation, technology, etc.), conducted by national and international consultancy firms. Financing may take the form of ordinary shares, preference shares, convertible bonds, investment certificates and other equivalent financial investments on which the return is linked to corporate performance. The acquisition of direct equity stakes in investment companies or funds – with the same objective – is also envisaged.

Bridging The Seas in Northern Europe



The European Investment Bank will be holding its EIB Forum 1997, entitled "Bridging The Seas in Northern Europe", in Stockholm on Thursday and Friday, 23 - 24 October 1997. The Forum's venue will be the Stockholm City Conference Centre, the official dinner taking place in the Grand Hotel.

Over 300 professionals, with a wide variety of experience and backgrounds, will discuss the challenges and opportunities lying ahead for Northern Europe. The aim of the EIB Forum is to contribute towards exploring major European topics and, as a meeting place for experts, to promote professional contacts between specialists involved in the subjects highlighted at the Forum.

Over twenty renowned speakers both from the European Union and from Central and Eastern European countries will address the EIB Forum 1997. Many are key players in the region's development, representing national and local authorities, banks and industry and usually with broad experience of trans-regional cooperation, as well as representatives of major non-governmental organisations within the region. Delegates from the banking sector, industry, local and central governments, non-governmental organisations and international institutions, along with representatives of the media will be

invited to attend the Forum. Audience participation will be of great importance for the success of the Forum, as a major part of the programme is being devoted to open, in-depth discussions.

Among the key issues which will be debated in Stockholm are: challenges and opportunities for cooperation in the region, viewed from different angles; partnerships between cities; the approach to energy and the environment; and the outlook for

historian and Member of the Polish Parliament. Mr Geremek will give his keynote address during the Forum's gala dinner in the Grand Hotel.

The Forum 1997 is the third edition of an annual event which started in Amsterdam in 1995 when *the role of the private sector in financing large infrastructure* was discussed. The second EIB Forum took place in Madrid in 1996 and addressed *partnership in the Mediterranean*. Both events gathered high-ranking professionals repre-



Northern Europe in the 21st century, with a special emphasis on the infrastructure required to lay the foundations for effectively inter-linking the Northern European countries of the Union and the Central and Eastern European applicant countries with the rest of Europe.

Special guest speakers will be the Swedish Prime Minister Göran Persson, the EIB Governor for Sweden and Minister of Finance, Erik Åsbrink, and Bronislaw Geremek,

senting a wide spectrum of economic, financial and political views and operational and scientific expertise.

As in the case of the 1995 and 1996 Forum, the speeches and highlights of the discussions of the EIB Forum 1997 will be published in the *Forum's Proceedings*. The proceedings will be distributed on a wide scale within and outside the European Union amongst those who are professionally interested in Northern European development. ■

Activity during the 1st quarter

BORROWINGS CONCLUDED IN THE 1ST QUARTER 1997: 8.2 BILLION

- The EIB concluded ECU 8.2 billion worth of borrowings during the first 3 months of the year, with contracts signed adding up to 6.5 billion, representing a year-on-year increase of 9%. The operations were denominated in 14 currencies, almost 90% of which those of the European Union.

- In keeping with its strategy on the Euro market, the EIB:

floated its first Euro-denominated borrowing for an amount of 1 billion and



with a maturity of 7 years. The subscription price and interest up until 1 January 1999 will be paid in ECUs at the rate of one ECU for one Euro, in line with the undertakings given by the Bank in July 1996 (1). This operation having been well-received, the EIB went on to issue an additional tranche of 300 million;

launched, at the same time, its maiden "Euro-tributary" issues, for a total of ECU 1.5 billion: one issue in guilders, with a maturity of 10 years, followed

(1) See EIB Information No. 90, 4/96; page 1

THE IBERIAN PENINSULA IN THE AGE OF NATURAL GAS

On 1 November 1996, the 1 500 km long Maghreb-Europe gasline connecting one of the world's largest gas fields at Hassi R'Mel in Algeria with Cordoba in Andalusia came on stream.

Initially, this gasline will convey 10 million m³ of natural gas per year, including 6 million to Spain and 2.5 million to Portugal. By the year 2000, 7 000 Spanish firms and 7 million households will be connected up to the gas network, or double the present number. In the longer run, once additional investment has boosted the capacity of this infrastructure by increasing the pressure, the Maghreb-Europe gasline will also feed the grids of France and northern Europe.

The first section of this gasline, brought into service after just four and a half years' work carried out by a team of 5 000 and requiring 520 000 tonnes of steel piping, represents a major contribution towards expanding the use of natural gas in the European Union.

To date, the EIB has helped to put in place an integrated system of gaslines serving the Union from northern Africa with funding of more than ECU 1.1 billion, both for the gasline across Algeria, Morocco, the Strait of Gibraltar and Spain, and for the interconnection with Portugal, the only European country not hitherto supplied with natural gas.

Other projects underpinning the introduction and use of natural gas, a low-polluting source of energy, have been financed since 1993 to the tune of ECU 1.4 billion. In Greece and Germany this has involved networks fed by natural gas from Russia, in Italy gaslines supplying the country with Algerian gas brought in across Tunisia, as well as the submarine gasline between Bacton (United Kingdom) and Zeebrugge in Belgium, plus a host of local supply networks for connecting up users, notably in eastern Germany where the existing grid is being brought into line with European standards.

by three further issues in French francs, escudos and Deutsche Mark, the conditions being the same in each case except for the issue price. These benchmark issues, with the option of conversion into Euros as from

1 January 1999, can then be consolidated with other Euro issues.

Altogether, these operations made up one third of issuing activity during the first quarter.

- In addition, the EIB continued its quest on the markets for ways of keeping down the cost of raising its resources by diversifying its products and borrowing techniques. Such operations concerned in particular the peseta, the Deutsche Mark, the Italian lira and the yen.

LOANS SIGNED IN THE 1ST QUARTER 1997: ECU 2.7 BILLION

- During the first three months of 1997, the EIB made ECU 2 747 million in loans available for investment in support of European policy objectives.

- **Within the European Union**, finance contracts worth ECU 2 658 million were signed involving ten countries. This figure breaks down as to 1 820 million in individual loans and 838 million in global loans arranged with intermediary institutions. These global loans plus those concluded in previous years were drawn on for an amount of 700 million during the first quarter in the form of some 1 300 sub-loans.

Infrastructure, taken overall, accounted for three quarters of the total.

The **transport** sector attracted ECU 850 million: roads and motorways, including in France the A39 Dôle - Bourg-en-Bresse and A43 La Maurienne motorways; the fixed link across the Great Belt in Denmark; various sections in Spain, Portugal and the United Kingdom and, in Sweden, construction and repair of sections on the E4 Stockholm - Helsingborg and E6 Malmö - Norwegian border motorways, this last section being part of a priority TEN. In the rail sector, the EIB advanced loans in Spain for modernising the national and suburban network and, in Sweden, for modernising the Malmö-Göteborg line, a

priority TEN. Lastly, the EIB also contributed towards partial renewal of the British Airways fleet.

In Sweden, the EIB also stepped up its support for modernising the **telecommunications** network (150 million).

Financing for **environmental** infrastructure centred on construction of sewerage and sewage disposal facilities in Belgium and in Heilbronn, Dresden and Wuppertal in Germany. These operations often took the form of global loan allocations, which added up to ECU 300 million and funded 500 local water supply or sewerage systems and small-scale municipal infrastructure in France, Germany, Spain, Portugal and Austria.

In the **energy** sector (ECU 312 million), lending for electricity generation went, in Italy, to gas-fired cogeneration plants in Lombardy, Umbria and the Marches, and, in Germany, to Schkopau lignite-fired power station. A natural gas supply project was also financed in Tuscany.

In the **productive sectors**, the bulk of individual loans (ECU 354 million) focused on developing and producing a new generation of direct-injection petrol and diesel engines at Ennery, near Metz (France).

Some 800 SMEs received ECU 343 million in global loan finance during the first quarter.

- **Outside the Union**, the Bank advanced ECU 30 million in South Africa for funding small-scale infrastructure, 10 million in Uganda in support of small private-sector firms and 4 million in the Cayman Islands for managing the electricity transmission grid. In Cyprus, 25 million will be devoted to financing SMEs. Lastly, the Bucharest metro received 20 million. ■

ECU

Below are the ECU values in national currencies, as at 31 March 1997; these rates are applied for the fourth quarter of 1996 in preparing financial statements and operational statistics of the EIB

DEM	1.95206	BEF	40.2772
FRF	6.57598	LUF	40.2772
GBP	0.713901	ITL	1948.34
NLG	2.19591	ESP	165.605
DKK	7.44655	PTE	196.414
IEP	0.740711	GRD	308.684
SEK	8.80732	ATS	13.7398
FIM	5.79553	USD	1.16173

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